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ABSTRACT

Credit cards have swept through almost every social class and all ages in Hong Kong. This paper attempts to provide a preliminary analysis of the possible impact of credit cards on individuals and their families in Hong Kong. A literature review reveals that Hong Kong people, while enjoying the freedom and convenience of "plastic money," are following in the United States' footsteps of easy future spending and huge debts. An analysis on credit card adoption did reveal some problems experienced by families and society. Impacts of the changes in the concept of money spending, banking activities, and purchasing activities on consumers have been observed to be different for people from diverse social class status and from various age groups. In response to these new emerging problems, social welfare professionals have been urged to gain new intervention skills and knowledge. They have been encouraged to equip themselves with skills in credit counseling, family budgeting, and financial management, so that they are more ready to assist the increasing number of clients with such problems as well as provide preventive programs. (JDM)

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Impacts of Credit Cards on Individuals, Families and Society in Hong Kong: an exploration

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Introduction

Technology and its products infiltrate almost every aspect of our life: office automation (e.g. computers), communication between individuals (e.g. mobile phones), and home living (e.g. security systems) etc.. In reaction to the development of new technology, people's life changes. It is difficult to come to any conclusion that whether such technological advances and the impacts they bring for individuals and their families are good or bad. The fact is that technologies are here and are affecting our life, it is better that the goods are allowed to remain and the bads are provided with remedies. With such a philosophical stance, the present paper attempts to provide a preliminary analysis for the possible impacts of a selected information technology - i.e. credit cards - on individuals and their families in Hong Kong; as promotion of credit cards (by suppliers) and adoption of them (by consumers) are particularly illustrative in changes in attitude and behaviour in Hong Kong.

The analysis focuses on two types of credit cards: the bank credit cards and the retailer credit cards. A brief history of their adoption in Hong Kong is given in comparison to the same development in the United States (US) - this serves to demonstrate the take-up rate of Hong Kong people is still low, despite its growth has been very fast for the past 5 years. Having reviewed relevant literature, research studies and news reports on the subject areas, Hong Kong people, while they are enjoying the freedom and convenience of 'plastic money', are seen to follow US people's foot steps into easy future spending and incurring huge debts. The analysis on credit card's adoption reveals some problems experienced by families and society as a whole in Hong Kong. In response to these new emerging problems, social welfare professionals are urged to gain new intervention skills and knowledge accordingly.

Types of Credit Card

The primary function of credit cards is to substitute cash and thus simplifying cash transactions. Credit cards are used to prepaid for services (e.g. Travel and Entertainment

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Such new adoption of technology inevitably brings demands on individuals to change their attitude and behaviour in spending money accordingly. Impacts (categorised into 'changes in the concept of money spending', 'changes in banking activities', and 'changes in purchasing activities') on consumers (i.e. individuals and their families) have been observed to have some differences for people from different social class status (loosely defined as related to the income and education levels, and occupation), and for different age groups.

Impacts on Individual and Family Level

Changes in the Concept of Money Spending

The working class people, with reference to their acceptance to the 'spending future money' concept - of which credit cards are encouraging, are resistant to the idea initially. The Chinese in Hong Kong can be described as largely 'agrarian' up until the early 80s. The traditional attitude and behaviour towards money spending were to 'save for the rainy days' and that it was face-loosing to borrow money, in addition these people may fear that they cannot pay back the money with interests if their earnings are low. Such a rooted cultural trait did not deter the acceptance but only delayed the adoption of credit spending in this group, the demands (temptations to be more appropriate) made on them, including the presumed good credit status and convenience, force them to accept the new money concept. However, due to this group's lower income and education levels, and their usual engagement in so-called 'high financial risk' occupations such as jobs with unstable incomes, approvals of credit cards do not come so easily. However, increasingly there are banks and retailers who are keen to capture a larger credit market and are ready for higher risks in attracting these customers.

The middle and upper classes generally adapt better in changes and are more realistic in adoption of new technology, due primarily to their higher education and therefore a better understanding in the concept; in addition they are likely to enjoy the

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maximum benefits of the designed usage, as they are the prime targets of credit card operators because of their stable earnings and good occupation.

With reference to age differences, the below 18 and the above 60 (retired elderly people) are required to change little in their attitude and activities, as they are normally dependent on others for money support and are not the targets for credit card operators. Nonetheless, the below 18 may not be accepted as principle holders as they are not considered to be self-responsible by law in Hong Kong; as for the 60+ it is expected that with deeper rooted traditional orientation to money, the elderly people are more resistant to the idea and tend to think that credit spending will bring risks rather than convenience. Moreover, the elderly group in Hong Kong is low both in income and education, thus are not the prime customers of credit cards. A survey (Cheung and Chan, 1989) in Hong Kong confirmed that no credit card holder was below 18 and only 0.5% of all holders were aged 60+. The same survey also noted that people aged 18 to 22 (mainly were university students), though only constituted 6% of all credit card holders at the time, were becoming potential credit spenders with their parents as guarantors. With aggressive promotions (e.g. with pre-approved large spending limits up to HK$30,000, attractive gifts and discounted purchases) organised through banks in universities (one in each of the six universities in Hong Kong) to encourage undergraduates to get their credit cards, and with a peer culture of 'spend now, pay later' among students today, young university students will find the temptations of credit cards too hard to resist (Economist, 1992). This is a group who is keen on the concept and spends readily, yet they may have to rely on their parents to pay for what they have spent without their parents' prior approval. There is not much evidence to show that this group spends lavishly because of their adoption of credit cards (Chan, 1993), but consumer debts among these people are becoming a trend (Economist, 1992).

For the 22-60 economically active and relatively better educated group, one would have expected that they could make the best of credit cards. However, experience both in the US, Japan (Economist, 1992) and in Hong Kong (Choice, 1996) shows that many of these people run into large debts. For Japan it was US$475, for US it was US$2,930.

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In this aspect, as we have discussed, because of their relatively low adoption of credit cards in Hong Kong, most working class individuals maintain this habit. Therefore, they pay cash as usual on almost all of their purchasing.

For middle and upper class, since they enjoy credit card's convenience in purchasing and monthly settlement. Retail outlets establish more check out points accepting credit card- and/or EPS- payment. There is another trend in Hong Kong mostly in the retail services sector (e.g.travel agents, private clubs) too. Third party agencies such as private clubs in association with a bank are issuing all-in-one credit-membership cards for the chosen few - so an added prestige and social standing to those who are qualified for the cards.

Considering the age differences, again the below 18 and the above 60 are 'drop-outs' of the game. Those aged 18-22, again mainly college and university students, have found spending a lot easier and more readily with a credit card in a retail store - they do not need to save up money like what they used to do, then come back a few weeks later and have found that their favourite item was sold. The adult group in general welcomes the retail credit cards, as the operations involved really are for their benefits: 'buy now pay later' safeguards the quality of the goods, time-saving at check outs, no need to bring cash or loose changes etc.. The pace and style of the new operations match their liking.

Overall Impacts on Families and Society

While there are lots of advantages in credit cards, some of which were discussed in this paper, problems emerged are of a new kind and are requiring innovative solutions. These problems now experienced by our families and society are largely derivatives of credit cards' misuses that can be prevented.

The Trend of Increasing Credit Debt

Although there is evidence to show those credit cards' holders in Hong Kong are wise spenders, the potential danger of incurring huge debts is evidently increasing. News reports are getting more in recent months about tragic endings of those who could not pay

up for the debts (e.g.disappeared from their families, committed suicide, and had their house door chained and families burnt to death by debt collectors). The competition between banks for high risk returns (for which credit cards business is one, it charges interests up to an annual rate 51.1% (Choice, 1996)), encourages the banks in Hong Kong to follow the foot steps of US to relax of credit cards approval to cover almost any one. A study in US(Celarier, 1996) showed that, in 1995 and 1996, an astonishing 5 billion credit cards offered, many of them pre-approved, to college and high-school students, and even the unemployed. The Choice magazine (1966) in Hong Kong also noted the same and cautioned that as credit card holders might not realise the heavy interests imposed, they were likely to incur huge debts as the debts accumulated. In parallel with the increase in the issue of credit cards, banks are stepping up their actions to recover debts - it is a common practice for banks to hire 'persistent' debt collectors to recover their debts from individuals and families. Mean used by these collectors ranging from persistent disturbances to debtors' families (e.g.mid-night calls, nasty letters) to criminal acts (e.g. paint spray 'pay back the money moron 'on debtors' doors , chained up their house doors, or even set fire to the door as warnings). There is no doubt that credit card debts are raising concerns from the social welfare professionals in Hong Kong, so much so to the extend that they are putting pressure on the government for more control over debts collection, as well as they are urging the banks not to give out credit cards so easily.

Unhealthy credit debts are becoming a serious problem not only for individuals but their families as well. For example, 1.1 million families in the US are expected to file for bankruptcy due primarily to credit card debts in 1996, a 26% increase over 1995. Many of these families broke up as a result. It is argued that legislators and social policy makers have to be mindful over measures that can assist healthy budgeting for family spending - what seemingly an area of private matter now becomes a public concern.

For another aspect within the family in parent-child interaction, the parents can control spending of their non-earning children by with cash transactions - the children have to get approval first for the items they want. Now with credit cards (supplementary cards for children), especially for those studying overseas, parents only learn about their

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children's spending after they have the statements. There are of course positive and negative sides of the practice, but it is evident in Hong Kong that in extreme cases where children (including those at colleges and universities) spend beyond their parents income ability and parents were prosecuted for the debts as they served as guarantors. A recent news report noted that some parents had no choice but to make public declarations to end the parent-child relationship as a result to avoid being the next-of-kin of the debtors.

The banks thrive on interests charged on credits, and people increasingly are relying on credit cards for their daily purchases and banking including paying their mortgages. Credit cards are beneficial to both so long if they are utilised properly. The only right way, proposed by many researchers, to cope with the emerging social problems is a proper financial education for all individuals from students to upper class family. There are now studies to show that 'a stitch in time saves many' - a study in US (Cleaver and Martin, 1996) showed that many programs sponsored by both industry groups and individual companies are out-reaching to give credit cards holders the right information at the right time to help them stay on the straight and narrow path of proper credit management. A proposal to incorporate a curriculum for credit education right from kindergartens has been well accepted in the US (Harris, 1996). It is not too early to alert professionals in the fields (social welfare, education and the like) to start with the same.

Fraud and Security

The using of credit card requires an authorisation and verification procedure that may or may not involve visual identity (e.g.use of a personal pin number). To do this, retailer cashiers often use some sort of electronic device to communicate with the bank or card issuers' computer systems for customer account confirmation. Development of advance telecommunication technology facilitates purchasing activities by improving the efficiency and effectiveness of this authorisation and verification procedure. However, the professional criminals also utilise the same technology to crack into the systems (e.g. forgery credit cards, falsified computer transactions). There are increasing incidents to

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indicate that machine and non-personal transactions could encourage other kind of fraud: financial loss as a result of cards being stolen is getting more frequent, counterfeited cards are getting more common. (Crawford, 1992). A study (Banking World, 1992) signalled all card issuers and retailers that potential fraud is the biggest issue facing them. The study found that, in UK, plastic card fraud losses grew to 165 million sterling pounds in 1991, up 35% from the previous year.

The short term weapon in the battle against fraud is the use of advanced technology for credit card verification and authorisation at the point of sale - which soon enough criminals will find a way to crack down, and the long term weapon is through education at both community and schools - which seems to be the most appropriate measure.

Another research (Crawford, 1992) also identified that, nowadays, massive amounts of sensitive and personal information are electronically stored in different computer systems. Under the development of advance networking technology, networked computer systems create a potential for unknown or unauthorised person to access to that confidential information. Likewise for credit card holders' personal information, unauthorised uses of all this information can lead to unprecedented rise in different types of crime. Therefore, information security, privacy of personal information and its legislative control are becoming major social issues . The transfer of credit information in particular is a focal concern, especially when credit card holders' information is of interests to all potential business operators.

Human Machine Interaction

Credit cards actually enable a trend towards funds being transferred globally, electronically and quickly through a piece of plastic with a magnetic strip. No matter bank tellers, retailer cashiers or consumers now all often interact with a computer and other electronic devices (Daly, 1996). For bankers and retailers, less human interaction means lower operational cost but it does not mean that all the human operators will be replaced. The tellers' traditional work has changed from counting paper money, dealing with cash

withdrawal and deposit and so forth to develop new business, building customer relationship, help customer to establish their financial planning or purchasing planning. For those individuals who are able to operate the new machines and do not have to rely on bank staff for the transaction, they surely will enjoy the speed and the full control over their accounts. However, for those requiring lots of assistance, say those with low literacy skills, will find operation on a machine very difficult. And for those who have only limited human interactions, such as those elderly living alone, will find their social network constricted further.

Conclusion

As a significant part of the new technology directly affecting our living style, credit cards no doubt have brought about a lot of advantages in making many people's lives, if not every one's, life easier. However, like all new technology, it is an evil to those who do not have knowledge and to those who misuse it. The present paper has argued that credit cards, like what they have been in the US, inevitably swept through almost all social classes and all ages in Hong Kong, bringing with them both the goods and the bads in the process of adoption in different dimensions - in money spending, in banking and in retail purchases. Although there is not yet much evidence to show that new social problems (e.g. credit card debts, frauds and personal information security) have affected individuals, families and our society to the extend which the US is experiencing, news reports in Hong Kong have been indicative of the same trend. In view of this, social welfare professionals are encouraged to equip themselves with skills in credit counselling, family budgeting, and financial management, so that they are more ready to assist the increasing number of clients in such problems, as well as to provide preventive programmes.

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